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UNITED STATES DEPARTMENT OF AGRICULTURE

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Washington, 25, D. C.

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June 10, 1955 //

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REPORT ON PRELIMINARY INVESTIGATION UNDER SECTION 22 OF THE AGRICULTURAL  
ADJUSTMENT ACT, AS AMENDED WITH RESPECT TO THE NEED FOR CONTINUING  
RESTRICTIONS ON IMPORTS OF RYE //

In accordance with regulations of the Secretary of Agriculture with respect to "Import Quotas and Fees" (17 F.R. 8287) issued September 11, 1952, a preliminary investigation has been made by the Department of Agriculture under section 6.4(a) thereof to determine whether there is sufficient basis for the Secretary of Agriculture to advise the President that the Secretary has reason to believe that upon termination of present import restrictions, rye, including rye flour and meal, is practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with the price support operations undertaken by the Department of Agriculture with respect to rye, or to reduce substantially the amount of products processed in the U.S. from domestically produced rye.

On the basis of this investigation, it is concluded that there is reason for such belief.

On March 31, 1954, the President issued a proclamation providing for an import quota of 31,000,000 pounds of rye, rye flour, and rye meal (equivalent to about 554,000 bushels) from all sources during the period April 1, 1954, through June 30, 1954, and for a quota of 186,000,000 pounds (equivalent to about 3.3 million bushels) during the period July 1, 1954, through June 30, 1955. On the latter date the control expires unless renewed by Presidential action.

1. Rye Industry

Rye is grown in at least 35 states, but commercial production of rye for grain is concentrated largely in 8 states --- North Dakota, South Dakota, Nebraska, Minnesota, Wisconsin, Indiana, Illinois, and Michigan. (Table 1) In recent years about two-thirds of the U.S. rye production and around 70 percent of the total amount of rye moved off farms occurred in these 8 states. (Table 2)

Most of the rye grown in the United States is planted in the fall and harvested the following summer. Only about half of the planted acreage normally is harvested for grain; the remainder is used for winter cover crops or pasture. The marketing year for rye in the United States begins July 1; in Canada it begins August 1.

Rye production in the United States reached its peak in 1922 when 101 million bushels were produced from 6.8 million acres harvested for grain. During the past 3 decades there has been a continuing shift from rye to other crops. Production in 1952 was the lowest of record, amounting to only 16.0 million bushels, harvested from 1.4 million acres. With wheat under acreage allotments





and marketing quotas, production of rye is increasing. The 1955 crop is presently estimated at 29.3 million bushels compared with 23.7 million in 1954, and 18.2 million in 1953. The 1955 crop will be the largest since 1942. (Table 3)

Rye plays a relatively minor role in the U.S. food grain, feed grain, and distilling pictures. Rye normally amounts to less than 1 percent of the total grains used for food or feed, and only about 2 or 3 percent of the grains used for industrial alcohol and beverage spirits. Nevertheless, rye is an important crop in a number of the states.

In relation to all U.S. agricultural crops, rye ranks twenty-first in terms of cash receipts. The total value of sales from the 1953 crop of rye amounted to 17.4 million dollars. For the 1954 crop it is estimated that the value of sales will amount to about 19.9 million dollars. This increase over 1953 was due to larger quantities being sold off farms which more than offset the lower prevailing prices.

## 2. Price Support Programs and Operations

The 1955 crop of rye will be supported at a national average price of \$1.18 per bushel for No. 2 or better, based on 70 percent of parity on November 15, 1954, according to an announcement by the Department on December 13, 1954. (Table 4)

The 1954 crop of rye was supported at a national average price of \$1.43 per bushel, on the basis of 85 percent of parity as of September 15, 1953, pursuant to sections 301 and 401 of the Agricultural Act of 1949, as amended. The 1954 support rate is the same as for 1953.

Price support programs for rye have been in effect every year beginning with 1939 with the exception of 2 years, 1946 and 1947. Under existing price support legislation, rye is a non-basic commodity on which support is non-mandatory, but which may be supported at the discretion of the Secretary at a level not in excess of 90 percent of parity.

As in other recent years, 1955 prices will be supported by means of nonrecourse loans on farm and warehouse-stored rye, and by purchase agreements with producers. Rye, to be eligible for a loan or for delivery under a purchase agreement must (1) have been produced in the particular year in the continental United States by an eligible producer, and (2) grade No. 2 or better, or No. 3 on the factor of test weight only, but otherwise grading No. 2 or better. No premiums are provided, but discounts are in effect for rye grading ergotty. Support rates are established for the various rye-producing counties on rye stored on farms and in country elevators, as well as for designated terminal markets. Loans and purchase agreements are available from the time of harvest (as early as May 15 in some Southern states) through January 31. Loans for the 1954 crop matured on April 30, 1955, except in certain Southern and Eastern states where they matured on February 28, 1955. All loans are subject to being called prior to maturity. Declarations to deliver 1954 crop rye under purchase agreements had to be filed with County Agricultural Stabilization and Conservation Committees in the 30 days prior to the maturity dates for the loans.

Details with respect to the 1954 rye price support program including terminal, state, and county rates, were published in the Federal Register on February 19, 1954, as 1954 CCC Grain Price Support Bulletin 1 (19 F.R. 967) together with





amendments thereto (19 F.R. 1595 and 6901); Supplement 1 - Rye (19 F.R. 1810) together with amendments thereto (3124, 4399 and 5593); Supplement 2 - Rye (19 F.R. 4178, 5079, 5594, 7103, and 20 F.R. 911 and 1551); and Supplement 3 - Rye (20 F.R. 2350). General provisions of the 1955 crop price support program were published in the Federal register in May 1955, (20 F.R. 3017). Copies of each of the 1954 bulletins are attached.

### Objectives

A primary objective of the rye price support program is to enable producers to market their crops in an orderly manner through normal trade channels at prices not less than the effective support rates. Through the support program a producer can obtain a nonrecourse loan to enable him to withhold his product from the market. He may redeem his loan at any time prior to maturity and is therefore in position to take advantage of improved market conditions and to obtain more than the support level. At the same time, due to the nonrecourse feature of the loan, he may deliver his rye in full satisfaction of the loan at maturity, even though the market price is below the effective support price.

Under the purchase agreement program the producer has the opportunity, after the loan maturity date, to deliver not in excess of a specified quantity of the commodity to the CCC in the event that the market price is below the price support level. However, in the event market price advances to or above the price support level he can sell on the open market and is under no obligation to deliver the commodity to the CCC. Thus, the producer when participating by means of a purchase agreement has the same opportunity as under the nonrecourse loan to obtain more than the support price on the market, and at the same time he is protected against market price declines to below-support level.

It is not the intention of any price support program, such as that for rye, nor of the legislation under which it is operated, to establish the Government as the outlet for the producer's crop at the support level. Government loans and purchase agreements permit the producer to obtain the support price, but acquisition of large amounts of a commodity by the Government defeats the purposes and objectives of the support program by preventing producers from obtaining more than the support price, and of disposing of their crops in an orderly manner through normal trade channels.

### Activity

Price support activity in 1954-55 is at a record high level. Producers placed a record 7.2 million bushels of the 1954 crop under price support, equal to 30 percent of the production, and to about 45 percent of the total moving off farms in 1954-55. Present indications are that over 90 percent of the amount under support will be acquired by the CCC. In 1953-54, farmers placed 5.5 million bushels of the 1953 rye crop under price support, and 5 million bushels were delivered to the CCC. (Table 4)

The amount of 1954-crop rye placed under price support in the leading commercial-producing states represents an even larger share of the production in those states. In the 4 principal commercial rye-producing states -- North Dakota, South Dakota, Minnesota, and Nebraska -- an average of 65 percent of the 1954 crop was placed under price support, compared with 30 percent for the country as a whole. (Table 5)

In North Dakota 3.8 million bushels were placed under support, equal to 85



percent of the crop. In recent years 90 to 95 percent of the rye crops in North Dakota have been sold off farms. (Table 2) Thus, nearly all of the rye grown for sale in this state was placed under support, and practically all of this is expected to be delivered to the CCC.

In South Dakota farmers placed 1.8 million bushels of 1954 rye under the support program, equal to 73 percent of the crop. In that state, 85 to 90 percent of the crop normally moves off the farms. Thus, most of the 1954 rye produced for sale in South Dakota is expected to be acquired by the Government instead of moving into normal trade channels.

In addition to the acquisitions from the 1954 crop rye on May 1, 1955, the CCC still had about 1.7 million bushels of the 5 million bushels acquired from the 1953 crop. It also is expected to acquire nearly all of the approximately 600,000 bushels of 1953 crop rye resealed on farms.

Activity under the rye price support program since its beginning in 1939 is summarized in Table 4.

### Costs

The CCC already has incurred losses of about \$1.6 million or about 50 cents per bushel in disposing of that part of the 1953 crop acquisition which has been sold. This loss figure does not include losses likely to be realized in the disposal of the 1953 crop rye still in the CCC inventory (about 1.7 million bushels) or on the large amount of 1954 rye which is certain to be acquired (presently estimated at 6.5 million bushels). As of April 30, 1955, the CCC had a reserve of \$1,001,000 to cover possible losses on disposition of stocks then in inventory (1,746,000 bushels of 1953 crop rye), which means a loss of about 57 cents per bushel was anticipated. All indications are that the CCC will suffer still greater losses in liquidating the large acquisitions from 1954 and 1953 rye now in the process of being delivered - a total of about 7 million bushels.

The large volume of price support activity and the resultant heavy deliveries of rye to CCC anticipated in 1954-55 and 1955-56 are expected to raise difficult disposal problems, to cause high handling charges and, as a consequence, bring about excessive losses to the Government.

It is unlikely that the CCC can dispose of any significant amount of rye on the domestic market in view of the provisions of section 407 of the Agricultural Act of 1949, as amended, which governs the liquidation of storable commodities. This section prohibits the CCC from selling on the domestic market storable commodities, such as rye, at less than 5 percent above the current support price for such commodity, plus reasonable carrying charges, except for certain "restricted" domestic uses for which sales may be made at lower prices, including "sales for seed or feed." Section 407 authorizes "sales for seed or feed" at reduced prices only if such sales will not substantially impair any price support program. Sales of sizable amounts of rye domestically at prices considerably below the legal minimum price would adversely affect market prices and price support operations for rye and other grains. Approximately half of the domestic use of rye normally is for food and industrial purposes, not provided for in the exceptions.

Furthermore, all sales of storable commodities must be made in accordance with the general policies prescribed by section 407 to the effect that "in de-





termining sales policies for . . . . storable nonbasic commodities, the Corporation shall give consideration to the establishing of such policies with respect to prices, terms, and conditions which it determines will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of a commodity of the current crop." In this connection it should be noted that after giving careful consideration to all of the provisions of section 407, the CCC Board has established a policy under which rye stocks owned by CCC since 1950, when section 407 became effective, have been offered for domestic sale only at prices which reflect the current support price, plus 5 percent, plus reasonable carrying charges. The only exceptions to this rule have been sales at current market prices of small amounts of rye which were going out of condition, or were unstorable.

Even though sales for export may be made under section 407 at prices below the minimum levels prescribed for domestic sales, there is little prospect of any large disposition of rye abroad in the foreseeable future. As pointed out elsewhere in the findings of this investigation, export demand for rye has been reduced sharply in recent years. European countries generally are more self-sufficient, and Canada and Argentina have large supplies available for export. Even if it were possible for the CCC to develop export outlets, sales could be made only at competitive prices, which would result in substantial losses to the Government.

### 3. Domestic Supply and Utilization

Present indications are that the domestic supply of rye in 1955-56 would be more than enough to meet anticipated domestic requirements and leave a very large carry-over, even if there were no imports. The domestic supply in 1955-56 is expected to total about 43 million bushels, the largest since 1944-45. It will consist of beginning stocks of about 14 million bushels and production of approximately 29 million bushels. Such a domestic supply would be over 11 percent larger than in 1954-55, and 70 percent larger than the 5-year 1949-53 average. (Table 6)

Domestic utilization and exports are not likely to be much larger in 1955-56 than in 1954-55, when they are expected to total about 28 million bushels. Present estimates are that in 1954-55 domestic utilization will total 24 million bushels, consisting of 5 million for food, 5 million for industry, 8 million for feed and loss, and 6 million for seed. Exports in 1954-55 are expected to total about 4 million bushels.

On this basis, even if no imports should occur during 1955-56, the carry-over on July 1, 1956 would be about the same as the unusually large carry-over of 14 million bushels on July 1, 1955. To the extent that imports are permitted the carry-over in 1956 will be increased.

In the current year, 1954-55, the U.S. supply of rye, including imports, totaled 42.1 million bushels, the largest since 1944-45. Beginning stocks amounted to 14.9 million bushels, due chiefly to the very large quantities of rye which had been imported from Canada during the previous year. (During the first 9 months of 1953-54, 12.9 million bushels were imported, before import controls were put into effect on the first of April. Imports during the April-June quarter amounted to 554 thousand bushels, in line with the established quota.) Imports in 1954-55 are expected to total 3.5 million bushels, in accordance with the quota for the year of 3.3 million, plus some imports of registered seed, permitted ex-quota. Production in 1954 was 23.7





million bushels, 30 percent more than in 1953, and 25 percent more than the 5-year 1949-53 average. As noted above, domestic disappearance and exports in 1954-55 are expected to total 28 million bushels, leaving carry-out stocks on July 1, 1955, of 14 million bushels. (Tables 6 and 6A)

The outlook is for expanded acreage and above-average production of rye in the United States for some years to come, because of the likelihood that acreage reduction programs will continue in effect on wheat, corn, and other crops. In 1955, approximately 30 million acres of crop land was diverted from the crops under acreage allotment and marketing quota programs. The diverted acreage will be even larger in 1956.

#### 4. U. S. Imports of Rye

U.S. imports of rye, including meal and flour, are being limited by an import quota of 186,000,000 pounds, equal to about 3.3 million bushels in the marketing year July 1, 1954 through June 30, 1955, plus shipments of registered seed for planting and small amounts for experimental purposes. The quota is approximately equal to average imports during the 3 crop-years 1950-51 through 1952-53. (Table 7)

During 1953-54, there were record imports of 13.4 million bushels, even though import controls were in effect for the last quarter. Practically all United States imports of rye have come from Canada and most of them have entered in the North-Central area, where they compete most severely with domestic surplus supplies. In 1954-55, about 61 percent of the reduced imports entered the United States through Chicago, 12 percent through Duluth-Superior, Dakota and Minnesota, and 25 percent through Buffalo. In 1953-54, about 70 percent of the imports came in through Chicago, 16 percent through Duluth-Superior, Dakota, and Minnesota, and 10 percent through Buffalo. (Tables 8 and 8A)

United States imports of rye meal, flour, and malt in recent years, when imported at all, have been negligible in relation to the total imports of rye. There has been none imported since 1951-52. (Table 9)

The current U.S. import duty on rye grain is 6 cents per bushel (56 pounds.) The import duty on rye, flour, meal, and malt is currently set at  $22\frac{1}{2}$  cents per 100 pounds.

#### 5. Canadian Supply and Utilization of Rye

Canada, the source of practically all U.S. imports of rye, will have large stocks of rye available for export in 1955-56. Canadian supplies next season are expected to total about 29.5 million bushels, based on an indicated large carry-over of 16.5 million bushels and a 1955 crop of 13 million bushels (average yield for past 5 seasons times the acreage indicated by the Canadian Intentions to Plant Report issued on March 16 by the Dominion Bureau of Statistics.) Such a supply would provide at least 16 million bushels for export, assuming domestic use in 1955-56 of about 8 million bushels, the same as in 1954-55, and a carry-out of 5 million, equal to the 10-year 1941-50 average.

The 1954-55 Canadian supply totaled 33.5 million bushels, consisting of a record carry-over of 19.3 million and a 1954 crop of 14.2 million bushels. Domestic use this season is expected to approximate 8 million bushels, about the same as in 1953-54, but somewhat above the 1940-49 average of 6.8 million bushels. Exports are similarly expected to total about 9 million bushels





(exports during the 10 months August 1954 through May 1955 amounted to about 5 million) compared with the very large exports of 17.6 million in 1953-54 and the 10-year average of 6 million bushels. (Table 10)

Prior to the imposition of U.S. imports restrictions, April 1, 1954, Canada generally had shipped over half of her total exports of rye to the United States, shipments to Western Europe accounting for most of the remainder. This pattern prevailed except in years when unusual situations arose, such as the acute food shortage abroad following World War II, which resulted in Canadian shipments overseas greatly exceeding those to the United States in several postwar years. However, because of generally favorable production and supply situations in importing countries and the availability of rye from other exporting areas in recent years, Canada's overseas export market has been reduced, although they are somewhat larger this season than in 1953-54 when such shipments amounted to less than a million bushels.

Total Canadian rye stocks in all positions on April 30, 1955 were estimated at 21.0 million bushels, considerably above the 1945-54 average for this date. The visible supply of rye, i.e., quantities held in commercial positions in Canada totaled 9.9 million bushels on May 4, 1955, compared with 6.1 million a year earlier and 12.4 million on this date in 1953. This indicates that large amounts are still being held on farms (11.1 million on April 30, 1955) and are available for movement into export channels.

The operations of the Canadian Wheat Board, an official government agency, will have some effect on the supply of rye entering commercial channels in 1955-56. Under the program now in effect, the Board regulates the marketing of wheat, oats, barley, and rye, and all except rye must be sold through the Board or its designated agents. This regulation is accomplished by a system of delivery quotas based on the specified acreage allotted to each producer for all grains plus land in summer fallow. The Board does not set the delivery quotas for individual grains, but fixes the total over-all quota for the above grains which may be delivered. The individual producer, thus, has some choice in the proportion of his total quota that he will deliver for each grain. However, the Wheat Board retains the authority to regulate the amounts and types of individual grains which may be marketed at any particular time or place.

#### 6. The Rye Situation in Argentina

Argentina could provide a potential source for United States imports in the absence of import controls, particularly if difficulty should be encountered in moving rye from Argentina to the usual European markets.

Large stocks of rye are available for export in Argentina. The 1954-55 (December 1954-November 1955) supply in Argentina is estimated at 47 million bushels. With domestic disappearance estimated to average about 12 million bushels per year, about 35 million is indicated to be available for export during the current season or for carry-over into the next season. The carry-over during the past 5 seasons has averaged 10 million bushels, thus indicating a 1954-55 export availability of approximately 25 million bushels. Argentine rye exports, December 1954 through April 1955, totaled 5.3 million bushels, leaving approximately 20 million bushels available for export during the balance of this season.

It is true that ordinarily the bulk of Argentine rye exports moves to Europe, and that no shipments of rye or rye products have been made to this country





from Argentina since 1941. (Table 11.) However, under the marketing system used in Argentina, there is considerable flexibility in the export pricing policy because foreign trade in all grains is controlled by the Argentine Trade Promotion Institute (IAPI) which is a government monopoly. IAPI fixes the prices to producers and for export, and may establish export prices at any level required to move grain into export channels.

#### 7. Domestic Rye Prices

Prices of rye in the United States, both farm and terminal, have been below support levels since May 1953, and current prices are even below the reduced support rates announced for 1955-56.

The national average monthly price received by farmers for rye during the first 11 months of this season, July through May, averaged \$1.13 per bushel, 30 cents below the national average loan rate of \$1.43. The comparable 11-month average for a year earlier was \$1.14. The mid-May national average price received by farmers was \$1.06 per bushel. The highest mid-month price received to date in 1954-55 was in September when it was \$1.25, or 18 cents below the support rate. (Table 12)

Prices received by farmers for rye in the major producing states have been greatly below support during the current year. In mid-May, the average prices received by farmers for rye in the 3 major producing states of North Dakota, South Dakota, and Minnesota, were 46 to 47 cents below the applicable state average support rates; farm prices in these states have been below the state support levels since May 1953. Farm prices since the beginning of the current marketing year have continuously averaged below applicable support rates in 29 out of the 35 states for which rye prices are reported. Of the 6 states reporting prices at or above support during May all are minor rye-producing states and 5 are in the grain-deficit Southeastern United States.

In line with the low prices received by farmers, prices paid for rye at Minneapolis, the principal terminal market for this grain, also are well below the terminal support level. The average price paid for No. 2 rye at Minneapolis has been continuously below the applicable terminal support level since April 1953, and in May 1955, at \$1.21 per bushel, was 43 cents below the support level of \$1.64. The high monthly average price for the 1954-55 season to date was \$1.43 in September and the low was \$1.21 in July 1954 and May 1955. (Table 13)

#### 8. Interchangeability of Domestic and Canadian Rye

The U. S. and Canadian grading systems differ widely, but U.S. grade No. 2 and Canadian No. 3 CW are considered to be comparable for practical purposes. U.S. No. 2 and Canadian No. 3 CW rye generally have constituted the largest amounts of the various grades marketed in the respective countries in recent years. Trade reports also indicate that the majority of rye shipments to the United States from Canada in late years has consisted largely of Canadian No. 3 CW. Domestic and Canadian rye have about the same quality range and are generally interchangeable.

#### 9. Comparison Between U.S. and Canadian Prices

Canadian rye prices are well below U.S. support prices for rye. The landed price during the first part of May of No. 3 Canadian rye at Chicago would be



about \$1.15 per bushel (based on the Winnipeg price of \$1.00 per bushel and including the duty of 6 cents and the freight and handling charges of about 9 cents from Fort William-Port Arthur), compared with the terminal support and market prices at Minneapolis of \$1.64 and \$1.21, respectively. (Table 13)

A comparison between prices of Canadian No. 3 CW rye at Winnipeg (basis in store Fort William-Port Arthur) and comparable U.S. No. 2 rye at Minneapolis indicates that Canadian rye prices are and have been substantially below U.S. prices since 1951-52.

Canadian rye so far this season has been selling at Winnipeg at from 26 to 71 cents below the 1954 terminal support rate of U.S. rye at Minneapolis; in May 1955, it averaged 64 cents below. Quotations for Canadian No. 3 CW rye at Winnipeg have ranged from 10 to 30 cents below market prices for U.S. No. 2 rye at Minneapolis since September 1952, with the exceptions of September and October 1954, when the differences were 5 and 8 cents below, respectively.

Almost without exception in recent years the differential between even the low domestic market prices and Winnipeg prices has been sufficient to cover the import duty of 6 cents per bushel plus freight and handling and still leave a reasonable profit.

Also, Canada enjoys an advantage in moving rye to some of the U.S. consuming areas because Canadian transportation costs are considerably lower than the costs to move domestic rye from U.S. producing centers to such areas. Rail transportation rates in Canada generally are lower than rates for comparable movements in the United States. For example, the rail freight cost of about 26 cents per bushel for moving grain from Northgate, North Dakota, to the head of the lakes at Duluth-Superior is more than twice the freight cost of about 11 cents per bushel from Northgate, Saskatchewan, (just across the street in Canada), to the Canadian head of the lakes, at Fort William-Port Arthur. This savings in freight cost alone often more than offsets the United States import tariff.

#### 10. Interference by Imports

This investigation discloses that rye will be imported in large volume in 1955-56 in the absence of import restrictions and that these imports will enter at prices below the reduced domestic 1955 crop rye price support level. Under these circumstances, unrestricted imports are practically certain to materially interfere with or tend to render ineffective the Department's price support program for rye and to substantially decrease the amount of products processed in the United States from domestic rye.

#### Rye will be Imported in Large Volume in 1955-56 if Import Controls under Section 22 are not Continued.

Large quantities of rye are available for export in Canada, the most important supplier of U.S. imports. As indicated in detail in Section 5 above, about 16 million bushels will be available in Canada for export despite anticipated reduced production in 1955-56. Argentina, another potential source of supply, also has large quantities available for export.

Imports of rye during the year July 1, 1954 through June 30, 1955 are limited to approximately 3.3 million bushels and the annual quota was practically filled during the first 2 weeks of the quota period. In the 1953-54 marketing





year, imports of rye totaled a record 13.4 million bushels, even though import restrictions were in effect during the last 3 months of the period.

The limited Canadian overseas markets for rye means that large quantities of rye will come to the U.S. in the absence of action under section 22. Production of rye has been increasing in importing countries in recent years, thus limiting the import requirements.

The Canadian Wheat Board has the authority to control the deliveries and exports of rye in that country. In Argentina, foreign trade in all grains is controlled by the Argentine Trade Promotion Institute (IAPI) a government monopoly, described in section 6 above. Thus, both in Canada and Argentina, the government exercises considerable influence on exports.

Imports of Rye have Entered and will Continue to Enter the U.S. at Prices Below the U.S. Support Price for Rye.

The landed cost of Canadian rye at Chicago is considerably below both the terminal support prices and the domestic market prices at Chicago and Minneapolis for comparable grades.

During the first part of May 1955, the average price of Canadian rye on the Winnipeg market, (basis in store at Fort William-Port Arthur) was \$1.00 per bushel. Freight and handling from Fort William-Port Arthur to Chicago of approximately 9 cents and the import duty of 6 cents results in landed costs of \$1.15 per bushel. This is 6 cents below the average Minneapolis domestic market price and 49 cents below that terminal's support price. Canadian rye has been quoted on the Winnipeg market, so far this season, at from 5 to 30 cents below the Minneapolis market price and from 26 to 71 cents below the terminal support price at this market.

Under the circumstances, unrestricted imports are practically certain to materially interfere with and tend to render ineffective the rye price support program and substantially reduce the amount of products processed in the United States from domestic rye.

This interference takes place in several ways. (1) Unrestricted imports of low-priced rye deprive the producer of the opportunity of obtaining more than the support price for his rye. (2) They interfere with the orderly movement of rye into regular trade channels. (3) They substantially increase the cost of the rye price support program to the government. (4) They decrease the amounts of products processed from domestic rye.

1. The importation of low-priced rye in volume will tend to keep domestic prices from rising above support prices for at least 3 reasons: (a) Purchasers will not pay more for domestic rye than they have to pay for comparable imported rye. (b) U.S. supplies of rye will be increased unduly at a time when supplies are more than sufficient to provide for U.S. requirements. (c) Carry-over stocks on July 1, 1955, will be abnormally high at a time when increased production is expected in 1955 as a result of diversions of acreage from crops under acreage allotments.

Under such conditions, excessive imports interfere with producers obtaining the effective support price except by delivering their rye to the CCC. This means that farmers are deprived of a primary benefit of the price support program, which is the opportunity for obtaining more than the support price for the crop.





2. Domestic rye is prevented from moving in an orderly manner through normal trade channels as a result of the heavy imports. A direct effect of large imports of rye at prices below the U.S. support level is to displace domestic rye from the market and force it under the price support program and ultimately into Government ownership. Farmers placed 7.2 million bushels of 1954 crop rye under support prior to the deadline on January 31, 1955, and present indications are that 6.5 million bushels of this will be delivered to the CCC. The quantity under support represents about 30 percent of U.S. production in 1954, and about 45 percent of the amount moving off farms into commercial channels in 1954-55. In the major surplus rye-producing states, an even greater proportion of the crop was placed under support from the 1954 crop -- e.g. in North Dakota 85 percent, in South Dakota 73 percent, and in Minnesota 42 percent.

The disruption of orderly marketing is most pronounced in the area into which the bulk of the imported rye moves. As indicated earlier, the bulk of the rye imported in recent years has moved into the north central area where most of our commercial rye is produced. The heavy movement of the foreign grain into this area competes directly with the surplus domestic rye, particularly at the terminal markets. As a result, in addition to the general effect on the price support program, the concentration of these imports in a single area seriously interferes with the orderly marketing of the crop in that area by creating uncertainties as to the supply available and prices that can be expected. It should also be noted that the surplus rye-producing area in the U.S. is the area where rye prices have been weakest, compared with support levels. In addition, the movement of large quantities of rye into storage complicates an already tight storage situation.

3. Large imports of low-priced Canadian rye defeat the purposes of the price support program by preventing market prices from rising and causing large quantities of domestic rye to move into Government ownership. It is not the intention of the support program for rye, nor of the legislation under which it is operated, to establish the Government as an outlet for the producers' rye at the support level.

With unrestricted imports, farmers will move record quantities of 1955 crop rye under support and the Government will have to take over unprecedented amounts. It is practically certain that the Government will have to acquire about 90 percent of the 7.2 million bushels of the 1954 crop placed under price support. In addition, practically all of the remaining part of the 1953 rye crop resealed, approximately 600,000 bushels, also will have to be taken over this summer. With U.S. export markets limited and with existing legislation restricting domestic sales of rye acquired by CCC, the financial losses entailed by the support program will be substantial.

Under the price support operations for the 1953 crop, the CCC incurred losses of about 50 cents a bushel on that part of its holdings sold, due to the fact that most of the sales were for export at current market prices. The CCC has set aside approximately 57 cents per bushel as a reserve to cover possible losses on the remainder of the 1953 stocks yet to be sold, about 1.7 million bushels. The CCC was able to avoid heavy losses during earlier years only because it was able to dispose of its rye stocks through U.S. foreign aid programs. Under normal conditions, such foreign outlets are not likely to be available in the future.

4. Unrestricted imports decrease the amount of food and feed processed in



the United States from domestic rye. When domestic rye moves under price support, domestic requirements tend to be met by low-priced imported rye and the domestic rye tends to go into the CCC inventory. The movement of domestic rye into the hands of the CCC while requirements are met by imports reduces the amount of food and feed processed in the United States from domestic rye.

So long as unrestricted imports are a possibility, merely the threat of large imports can materially interfere with the price support program for rye. U.S. farmers will find difficulty in selling their rye, since dealers will be reluctant to purchase more than the amounts for which they have immediate market outlets, and U.S. prices will be prevented from reaching or going above support levels.

11. Recommended Remedial Action

To protect the rye price support program from being materially interfered with and rendered ineffective by large imports of lower-priced rye and to prevent a reduction in the amount of products processed in the U.S. from domestically produced rye, it is recommended that restrictions under Section 22 be continued in 1955-56. The specific recommended action will be included as a part of the Department's testimony which will be presented at the Tariff Commission's public hearing on June 14.







